



## “Piramal Healthcare Limited Q3FY10 & 9MFY10 Results Conference Call”

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**Moderator**

Ladies and gentlemen, good evening and welcome to the Piramal Healthcare Limited Q3 FY10 and 9M FY10 Results Conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you need any assistance during the conference you may signal an operator by pressing \* then 0 on your touchtone phone. At this time I would like to hand the conference over to Mr. Sagar Gokani from Investor Relations. Thank you and over to you sir.

**Sagar Gokani**

Thank you Farah. Good afternoon to all of you. Welcome to Piramal Healthcare Limited Q3FY2010 Results Conference call. Joining me on the call are Mr. Ajay Piramal – Chairman, Ms. Nandini Piramal – Executive Director, Mr. N. Santhanam – Chief Operating Officer, Mr. Murari Rajan – Executive Director of Piramal Enterprises, Mr. Sudarshan Jain – Head of Healthcare Solutions business, Mr. Rajesh Laddha – Chief Financial Officer and Mr. Gerhard Klement our new Head of Pharma Solutions business.

We hope you have received the press release, results in the stock exchange format and analyst presentation that we have sent out. These are also posted on our website [www.piramalhealthcare.com](http://www.piramalhealthcare.com) on the investors section. We will be using the analyst presentation as a reference document.

It is appropriate to mention here that the discussion today may include some forward looking statements and this must be viewed in conjunction with the risk that our businesses face. The duration of this call is one hour. I would request you to kindly send your queries which remain unanswered during the call to [investor.relations@piramal.com](mailto:investor.relations@piramal.com). As usual Mr. Rajesh Laddha will discuss the financial highlights for the quarter and then our Chairman will talk about the broad developments and outlook for each of our businesses. I would now like to hand over to Rajesh.

**Rajesh Laddha**

Thank you Sagar. Good evening to all of you. I am going to take you through the quarter three and nine months financial results for Piramal Healthcare Ltd. The financial highlights are based on consolidated financial results of Piramal Healthcare Ltd.

The consolidated numbers apart from including the operations of Piramal Healthcare Ltd. on a standalone basis, the parent company also contain the results of its subsidiaries and joint ventures, companies namely Torcan Chemical, Piramal Healthcare UK, Allergan Joint Venture, Arkray Piramal Joint Venture, Minrad International Inc. which is now Piramal Critical Care and Piramal Diagnostic Business. With this background let me now take you through the numbers for the quarter ended December 31<sup>st</sup>, 2009.

- The total operating income for quarter three FY10 has grown by 9.0% to Rs. 9.1 billion from Rs. 8.3 billion in quarter three FY09.
- The operating profit before interest depreciation and tax for the quarter ended December 31<sup>st</sup>, 2009, amounted to Rs. 1.8 billion compared to Rs. 1.2 billion during the same quarter last year which is approximately 45% growth over last period. Similarly operating margin was up from 15.0% in quarter three FY09 to 19.9% in quarter three of FY10. The operating profit margin has also been higher on a sequential quarter basis.
- Interest cost was lower at Rs. 216.5 million for the quarter as compared to 261.1 million in quarter three FY2009 as we have been able to pay down debt of about Rs. 141 crores during the quarter.
- Depreciation was higher at Rs. 433.6 million for the quarter as compared to Rs. 294.7 million in quarter three FY2009 due to the consolidation of Minrad Operations.
- Tax was inclusive of deferred tax for three months ended 31<sup>st</sup> December, 2009 and was negative as we have created some deferred tax assets because of the carried forward losses available at the U.K. entity.

- Net profit for the quarter was up by 127.5% to Rs. 1.4 billion. Earning per share for the quarter was higher at Rs. 6.5 against Rs. 2.9 in quarter three of FY2009.
- Coming to the ratio slide the material cost has gone down as a percentage of sales for the quarter to 37.9% due to the better sales mix where we had higher Healthcare Solutions revenues. Healthcare Solutions sales as percentage to total sales was 55.0% against 49.4% in quarter three FY09.
- The staff cost as a percentage of sales is 15.6% compared to 14.1 again because of consolidation of Minrad's operations into overall consolidated results.

I will now quickly take you through the YTD nine-month's number.

- The total revenue, i.e., net sales and services for nine months have gone up by 12.3% to Rs. 27.3 billion compared to Rs. 24.3 billion year-on-year.
- The operating profit before interest depreciation and tax for the first nine months ended 31<sup>st</sup> December, 2009 amounted to Rs. 5.2 billion against Rs. 3.9 billion during the same period last year registering a growth of about 35%. The operating profit margin stands at 19.0% as compared to 15.9% for nine months for the year 2009.
- For consolidated results the tax component inclusive of deferred tax for the nine months ended 31<sup>st</sup> December, 2009, was Rs. 2.2 million as we had impact of deferred tax assets in Q3FY2010.
- Net profit for the nine months was Rs. 3.3 billion against Rs. 2.0 billion in quarter three FY09. EPS for nine months was higher at Rs. 15.7 per share against Rs. 9.6 per share for the same period last year thus registering a growth of about 63% over last year.

I will take you through some balance sheet highlights now.

- Our total debt as of 31<sup>st</sup> December, 2009 was Rs. 12.8 billion with a debt equity ratio of 0.8 as compared to 1.0 as of 31<sup>st</sup> March, 2009. Out of total debt Rs. 7.6 billion is in foreign currency and the remaining is in Indian rupees. We have been able to repay debt of Rs. 141 crores in this quarter all out of the strong cash flow generated by our businesses during the quarter.
- The net assets ratio is higher at 96 days as compared to 73 days for the FY2009. The receivable days have improved from 53 days to 46 days due to better sales mix with higher sales from healthcare solution business and better collections.
- Our ROCE is marginally better 19.3% for the quarter as compared to 19.0% for the full year FY09.

Now I would like to hand it over to our chairman for his comments on the performance of each business.

**Ajay Piramal**

Good afternoon.

- We continued to witness strong growth in the domestic formulations business. The sales of this business were up by 21.5% to Rs. 5.0 billion for this quarter, outperforming the industry growth of 15.7% as per the IMS November 2009.
- As you can see from slide 10 of our presentation we have outperformed the market in almost all the therapy areas and have grown particularly well in Anti-infectives, Dermatology, Nutritional, NSAIDs, and the OTC segment. The life style diseases constitute about 30% of our portfolio for nine months. We have launched eight new products in this quarter. As we have shared with you earlier we have been focusing on the tier two cities and semi-urban markets which help us achieve higher growth rates in the acute therapies as well.
- We now have achieved six consecutive quarters where growth has been ahead of the domestic market. PHL has also been consistently ranked as the number one company in the industry for past 12 months in terms of new product performance as per

the ORG-IMS. I would also like to highlight that this business has recorded strong growth in spite of a low growth rate in our largest therapy - Respiratory. This just speaks of the resilience in our Healthcare Solutions business.

- I now turn towards the Pharma Solutions where the sale was Rs. 2.1 billion during this quarter as compared to 2.6 billion in the same quarter last year. The revenues from Indian facilities have grown by 42.3% to Rs. 1.1 billion against Rs. 805.5 million for the same quarter last year. The revival of demand from our client companies has been slower than what we had anticipated. Our sales number also appears to be lower because of closure of our Huddersfield facility however our long term confidence in the Pharma Solutions business remain unshaken. We believe we will have growth in the financial year 2011.
- There is a lot of interest on the Pfizer contract so let me comment on that. We have reached an in-principle agreement on the contract however we are in the final stages of signing the contract. This contract has been renewed indefinitely with a notice period of three years for cancellation.
- We also continue to adhere to the highest standards of quality in manufacturing. During the quarter our Digwal facility was awarded the CII National Award for Energy Efficient Unit from the recently conducted Energy Management Award Evaluation by CII. Out of the 140 companies from all the sectors only 38 companies were short listed and we received the award as the only Pharma Company in this space.
- Now I will speak about the Piramal Critical Care business, this business grew by 163.3% to Rs. 778.5 million against the 295.6 million in the same quarter last year. Our sales for the quarter for the Minrad business is \$9.6 million as compared to \$14 million in the second quarter of this year and 9 million in the first quarter of the year. We have had a lean quarter due to sales not starting from contracts which already have been signed so it is really an issue of timing and these sales will now

commence from the last quarter of this year and in the first quarter next year. So all the pieces have been put in place and the business is poised to take off.

This summarizes the overall financial performance. Now, I thought we can have a look at the guidance which we had given. There are some revisions that we are doing to our numbers.

- We have said that our sales would grow by 16.0% to 17.0%. We are now revising it to 13.0% to 15.0%. We have done 12.3% in the nine months of 2010.
- We had said that our growth in the Healthcare Solutions would be in the range of 14.0% to 16.0%. Now on the back of the strong performance that we have had in the first nine months we are raising it to 18.0% to 20.0% against which we have actually grown by 20.7%.
- We had said that Pharma Solutions will have sales of Rs. 10.0 billion for the year and I am revising it now to Rs. 9.5 billion against which we have done Rs. 6.7 billion in the first nine months.
- In the Critical care business we had said our sales would be Rs. 4.5 billion for the full year. We are now revising it to Rs. 3.3 billion against which we have done Rs. 2.4 billion.
- Our operating margins were to be between 21.0 and 22.0% and now we are revising it to 20.0% at the end of the first nine months we are at 19.0% and we are confident that we will be able to achieve this 20.0% for the year.
- Now coming to EPS, we had said that our EPS would be between Rs. 23.5 to Rs. 24.0. Today at the end of nine months we are at Rs. 15.7. We have had significant savings in interest in depreciation and taxes. Hence we are keeping our EPS guidance intact. We expect quarter four to be strong and robust.

- For Capex where as we had said we would do Rs. 1.8 billion we are revising it to Rs. 1.3 billion against which we have done Rs. 1.0 billion.

This gives you a summary of our performance and the guidance. We are now ready to take your questions.

**Moderator**

Thank you very much sir. We will now begin a question and answer session. Anyone who wishes to ask a question may press \* and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press \* and 2. Participants are requested to use only handsets while asking a question. The first question is from the line of Mr. Manoj Garg from Emkay Shares, please go ahead.

**Manoj Garg**

Good evening to all of you. The first question is regarding our pharma solution business outside India, especially even on quarter on quarter basis also the revenue has come down significantly from 150 crores to 94 crores. Can you put some light on that?

**Ajay Piramal**

The pharma solutions business I would not worry too much on quarter by quarter basis but overall the pharma solution business is flat sales or slightly lower as I said from one billion it will be at 950 million it is a challenging environment. 12 months ago we had said that there are some in the global environment there were issues of inventory adjustments, there were certain other issues with a small and emerging biotech companies, the market is still challenging, large companies as you know Merck, Pfizer, Shering-Plough and Wyeth have been involved in merger activity. So there is some standstill in those companies. So consequently we are finding that it is a challenging market and we feel that next year onwards it should improve.

**Manoj Garg**

Okay. And the second thing when we met last time in the analyst meet we spoke about the improvement in the GCC and we expected the second half to be much more stronger. But I think numbers are more

or less flattish if we compare on quarter on quarter basis or even on GCC business also?

**Ajay Piramal** Yeah, so GCC business you are right the numbers are flat compared to what we had said is because though we have got all the orders in place I think it just took a bit longer to start executing these orders because as you perhaps know that in the anesthesia space we have to get contracts executed first the orders given by a group purchasing organization or GPO and then each individual hospital has to place the order. After the order is placed you have to place vaporizers before the order comes. Now the flow of orders has been pretty impressive but the vaporizers have taken time and therefore we see that you will find a change in the next quarter, in the fourth quarter and line of sight as far as this business is concerned for next year looks to be good.

**Manoj Garg** Okay. And the last question is like despite cut down in the guidance both on top line and operating margins we expect EPS to remain more or less at the similar level. Do we expect significant saving on account of tax front?

**Ajay Piramal** Yeah may be I will ask Rajesh to explain that to you.

**Rajesh Laddha** Yes so the drop in the operating margins will definitely get compensated and even the drop in revenue will get compensated due to savings in interests, some savings in depreciation and significant savings in tax.

**Manoj Garg** So what could be the year end guidance for the tax for the whole year? Because so far I think whatever the tax we have paid in the first half I think that has been written back in the third quarter.

**Rajesh Laddha** It should be around 12-15 crores for the whole year.

**Manoj Garg** Okay sir. Thank you very much from my side.

**Rajesh Laddha** Thank you.

- Moderator** Thank you Mr. Garg. The next question comes from the line of Balaji Prasad from Goldman Sachs, please go ahead.
- Balaji Prasad** Hi, thank you. This is Balaji Prasad here. Just two questions, firstly on healthcare solutions. As numbers are growing on strength to strength just wanted to understand how much of this is driven by new product launches and what is the volume growth that you are seeing and just also would extend the same FY11 and understand your outlook on the business?
- Sudarshan Jain** My name is Sudarshan Jain just to comment on the new product. If we see the growth of the industry it is around 15% and our growth is around 20%. We have significantly done better compared to the industry in terms of new product and as our chairman said earlier that we are number one company in new products. So compared to the industry growth in new products around 7% we are double the industry growth around 14% to 15%. Our volume growth is the same and the price growth is the same as per the industry which is around 4% to 5% is volume growth and 1% is the price growth as per the IMS figures.
- Balaji Prasad** And just extending this to your outlook on into FY11 how do you see this being sustained?
- Ajay Piramal** For FY11 we are going to give a outlook as we usually do at the end of fourth quarter but by and large we think this all should give a direction, the healthcare business will show the same robust growth.
- Balaji Prasad** Okay. Thank you. I had also one question which is on your guidance that you have maintained, glad to see that you are still looking an EPS of Rs. 23 to Rs. 24, now that would imply a 40% earnings growth QoQ and you said that there would be some part of fixture would be driven by your tax savings, but I also understand that your EBITDA margin run-rate in Q4 seems to be quite high, how would this be achieved?

- Ajay Piramal** So if healthcare solutions grows more than other industries our margin goes up on its own because of that. Margins in healthcare solutions business are say are higher. Secondly, I think some of the savings in terms of the integration that we have done as far as critical care will also start flowing in.
- Sagar Gokani** And just to add to that Balaji even on as Mr. Chairman was explaining to you on the critical care segment Q4 we expect it to be in line with what the guidance that we have given for the full year so there is a ramp up which is there as far as the critical care business is concerned and there will also be a increase in the profitability in that business. So that is what gives us a confidence that we will be able to do 20% for the full year.
- Balaji Prasad** Okay Sagar thanks very much. Just one last booking question. Can you just read the quantum of debt repaid and the interest outlook for the period, interest that you expect to pay?
- Rajesh Laddha** So on the debt front we expect debt equity to be about 0.7 and interest would be slightly lower than quarter three which is 21-22 crores so we expect about 20 crores per quarter.
- Balaji Prasad** Okay. Thank you very much. Good luck.
- Moderator** Thank you. The next question comes from the line of Ravi Agarwal from Edelweiss, please go ahead.
- Ravi Agarwal** Good evening. Thanks for taking my call. Couple of questions actually. One is when you mentioned the tax rate, just having some rough numbers I think out of 13-14 crores run rate for the full year we would have a tax rate in the fourth quarter of around 10%. I just wanted to understand what is the sustainable tax run-rate that one should actually assume for Piramal you know in terms of modeling and taking that going forward?
- Rajesh Laddha** So this year has been exceptional as far as tax rate is concerned but on a year-on-year basis it is about 13-15%.

- Ravi Agarwal** So there would be likely some more deferred assets which should be flowing in the fourth quarter is it in terms of the losses that some of your European operations?
- Rajesh Laddha** No, this all has been done as on 31<sup>st</sup> December which was the year end for the European company so as far as this year is concerned everything has been taken care of. I am talking of a run-rate from next year onwards perspective, 13 to 15%.
- Ravi Agarwal** Okay. And the second question was actually on Minrad Inc. can you just share what the EBITDA margins in this quarter was for Minrad Inc.?
- Rajesh Laddha** They have reached double digit. We normally do not disclose business wise EBITDA margins but they are improving every quarter so this quarter has been better than the last quarter and they are in double digit now.
- Ravi Agarwal** Okay third question, actually last, final question if I get into the queue is we have a very strong quarter with roughly my number suggest would need to do around 50% of our nine performance in the fourth quarter and you are saying that a lot of it will come because of interest savings, tax savings and depreciation. Interest, I mean how much you have been, this is a net interest cost of around 21-22 crores how much of it is actually finance cost and how much of it is interest income in this number in third quarter?
- Rajesh Laddha** This is a net interest cost so this is all a borrowing of about 1250 crores.
- Ravi Agarwal** And sir what would be the finance cost of it because this is a net interest number, right 22 crores, roughly?
- Rajesh Laddha** That is what we disclosed so you can take it as net interest on the borrowing.

- Ravi Agarwal** Okay. I just want a final question on Phensedyl I mean respiratory segment it seems some stress, imagine with the kind of winter which we would be having in North India we would possibly see a larger sales in the respiratory side. Any reason for the possibly lower sales in that segment?
- Ajay Piramal** No, the previous quarter had a very strong growth of 40% therefore quarter-on-quarter it looks a little lower but generally it is in line with what we had expected.
- Rajesh Laddha** 9 months has been about 17%.
- Ravi Agarwal** Okay thank you so much. Thanks.
- Moderator** Thank you Mr. Agarwal. The next question comes from the line of Sriram Rathi from Centrum Broking, please go ahead sir.
- Sriram Rathi** I just wanted to understand on the tax front of 20 crores of negative tax for this quarter, just wanted to know I mean how, what is the deferred tax asset that you have created because of the losses in the foreign subsidiary of European companies plus is there any tax benefit that you have got from the Minrad Inc as well.?
- Rajesh Laddha** This is carry-forward loss we had in our UK entity, now with closure of Huddersfield site now we have been able to create a deferred tax asset because we have continuous flow of strong cash flow at Morpeth, so that is why we could utilize this and Minrad, yes we would have come credits available but they are restricted in US so it will not be at large going forward. So once Minrad becomes positive I mean in terms of at PBT level then probably we will have some deferred tax asset or some tax benefit there but it is not going to be significant because the US laws are different.
- Sriram Rathi** So next quarter also we will have some tax benefit?

- Rajesh Laddha** No, this has been finished because 31<sup>st</sup> December is the year ending in UK so from their financial year perspective it is closed. Quarter four we will have some tax which I earlier said it will be about 10-12 crores.
- Sriram Rathi** About 12 crores of tax, so that would be around 11 to 12%. Okay and on second part as far as the depreciation charge is concerned there has been a substantial jump from Q2 to Q3 sequentially from 37 crores to almost 43 crores so what exactly the reason or should we take this as a run rate going forward, 43-44 crores?
- Rajesh Laddha** See as the Minrad capex will increase particularly on vaporizer front depreciation is going to go up but on the other front if you see we actually are incurring lower capex as against a guidance so we have set about 180 crores of capex we should end the year at about 131-135 crores. We would have savings and depreciation versus budgets or versus estimates.
- Sriram Rathi** Okay. Thank you.
- Moderator** Thank you Mr. Rathi. The next question comes from the line of Neelkanth Mishra from Credit Suisse, please go ahead sir.
- Neelkanth Mishra** Yeah hi. What are the early signs that the CRAMS order book will start to pickup, we have had disappointments for a while?
- Ajay Piramal** So the early signs are that people are talking about the facts that they have to outsource more and that they like us as a company and that some of the issues that they had in the environment are being settled. The early sign is also that some of the integration of these four companies has now started taking place. So we feel that there should be a better improvement as far as this space is concerned. Also a lot of companies are now started to reinvest in the development pipeline.
- Neelkanth Mishra** Right so, how does this workout? I mean you would already be participating in tenders being issued ?
- Ajay Piramal** Yeah, that is right.

- Neelkanth Mishra** And so you would have some visibility on when those tenders are going to start fructifying into revenues?
- Ajay Piramal** No, we will have visibility whether these tenders would be awarded or not in sometime that is why we think that next year as I said the first three months I do not see great improvement in sales the next year I see that.
- Neelkanth Mishra** Understood. And what proportion of your sales is currently early stage manufacturing sales?
- Ajay Piramal** Actually a majority of our sales are in the late stage. Early stage is still limited because the facility was new and it is still a small fraction.
- Neelkanth Mishra** Right. And the capex cut, I mean which capex have you drawn down that is from 1.8 to 1.3 billion?
- Rajesh Laddha** We had estimated to put up another plant for codeine manufacturing for which we had got the license that is delayed say about 30-40 crores is saved on that and another 10-15 crores is on general CAPEX cut. It is a general cut because it is estimated that. It is largely coming from delay in that codeine facility.
- Neelkanth Mishra** I understood thanks.
- Moderator** Thank you Mr. Mishra. The next question comes from the line of Bhavin Shah from Dolat Capital, please go ahead.
- Bhavin Shah** Hi, just joined in the call a bit late. Could you sir reiterate the figures for Minrad for this quarter and the corresponding quarter last year?
- N. Santhanam** For Minrad this is new business for the year so there is no corresponding quarter of last year so it is only for this period and for the quarter the sale is 49 crores and for the nine months it is 157 crores. There is no corresponding previous year period figure for this.

**Bhavin Shah** Okay, any update on Desflurane launch in Europe and subsequent ramp up in the overall operations, the benefit of which we would get starting from Q1 next year, is it?

**N. Santhanam** As we have been telling in the past you know on the Desflurane there was a litigation by one of our competitors so that is now in the Delaware court, so that matter will take some time to settle and in the meantime you know we will not be able to disclose more on this because the matter is subjudice. On the other side of the performance of the business as you have said in the US sales we are seeing a lot of traction of the business and we are able to win a lot of contracts with the GPOs but what is happening is at the GPO level whatever the contracts were secured by the time it gets into the hospital system it is taking time, that is the reason why there is a little bit of time pushback but otherwise the US business sales looks good.

**Bhavin Shah** Okay so the sales figures kick in from Q1 next year, is it? I mean from all the contracts that we have put in.

**N. Santhanam** The contracts are being signed on a monthly basis so some of the contracts which are being signed and already got into the system we will see the sales coming in the fourth quarter of this year and then thereafter from the remaining contract whichever is being done and where the vaporizers are placed on hospital system accept it, it will all be from the first quarter of next year.

**Bhavin Shah** Alright sir, thank you so much.

**Moderator** Thank you. The next question comes from the line of Sangam Iyer from Alfa Advisors, please go ahead.

**Sangam Iyer** Yeah good evening sir. My question is pertaining to the pharma solution segment, we have given a guidance of around 9.5 billion for the full year and if you were to sum up the nine month numbers it comes to around 6.6 odd billion. So I mean we are looking at around 2.8 billion for the final quarter. Just wanted to get a sense on the kind

of growth that you are looking from the assets from India and assets from outside India considering the numbers that we have reported in the third quarter?

**Ajay Piramal**

So these are really based on the contracts that are at hand in fact in this I think there will be; compared to the third quarter of this year the sales out of the UK Assets, Morpeth will be higher than what they were and the India assets will remain at the same level as they were in third quarter. Torcan and Morpeth will actually be higher sales compared to the previous quarter.

**Sangam Iyer**

Sir, then are we saying that we would be looking at around you know approximately around 200 crores kind of revenue from the assets from outside India, I mean more than that in fact in order to reach the 280 crores that needs to in order to achieve the guidance?

**Rajesh Laddha**

So out of 280 it would be expected around 100 crores plus from India because India also will be much higher as compared to Q3 from our Indian facilities and even the UK and Canadian facilities will do much better in quarter four as compared to quarter three.

**Sangam Iyer**

So there would not be much slippage from this and also the contracts that we have and the visibility based on that?

**Ajay Piramal**

No.

**Sangam Iyer**

Sir, on the Minrad thing, I mean during our analyst meet presentation I mean we had given that Minrad for the first quarter of this financial year, had done around \$10 million and then subsequently second quarter the run-rate had gone up to 14 million and based on our utilization etc we had said that you know this run-rate is expected to improve going forward. However this quarter we again see that it is back at around \$11 million so how should one look at it going forward?

**N. Santhanam**

Typically the US sales if you see this quarter is the most lean quarter with the thanks giving days and the December holidays so in terms of the number of effective working days if you see of this quarter is much

lower than you know what you will see in this. That is one of the reasons. And also as I said some of the contracts which we have secured which you know where it is being converted into the hospital sales, it is taking a bit of time because of the vaporizer installations and various other factors.

**Sangam Iyer** Okay, so should one say that you know fourth quarter onwards like we had predicted during the presentation that you know we would be back to the run-rate of around 18 to 20 million on a quarterly basis. Would that be a safer assumption to assume?

**Rajesh Laddha** 18 to 20 million quarterly run rate will happen from next quarter onwards I think.

**Sangam Iyer** That is Q4 onwards?

**Rajesh Laddha** That is Q1 of next year but even this quarter, quarter four we expect to be similar to quarter two what we have done about \$14 million. I think we are pretty confident because we have executed contract it is just a question of putting the vaporizers and start supplying basically to it. But since the contracts are in hand I think we are fairly positive.

**Sangam Iyer** And sir finally on the healthcare segment do we continue to see this kind of 20% YoY growth going forward as well, right? That is what we are guided earlier.

**Ajay Piramal** Yes, we will continue, as of now. We will give you a better estimate for next year when we meet for the fourth quarter but for the last quarter we expect this growth to continue.

**Sangam Iyer** Okay sir. And sir your employee cost in Q2 were there any one-offs steering the quarter which if I you know in Q3 it is back to the Q1 level at 140 odd crores?

**Rajesh Laddha** Yes, we have said that Q2 has some performance pay payments and the increment related impacts and we have said in Q2 that Q3 would normalize -

- Sangam Iyer** Yeah, right sir. Thanks a lot sir.
- Moderator** Thank you Mr. Iyer. The next question comes from the line of Ranjit Kapadia from HDFC Securities, please go ahead.
- Ranjit Kapadia** Hello, hearty congratulations for this good set of numbers. Couple of questions, first question pertains to Morpeth, I just want to know what is the progress of any other contract besides Pfizer. Second is update on diagnostic business and Allergan JV and third is what is the reason for this delay in codeine facility for API?
- Ajay Piramal** As far as Morpeth is concerned you will be happy to know that Pfizer has actually increased the order and the number of products that they have given. We have some other businesses as well. As you know we have also started a clinical trial supply business out of Morpeth. Allergan JV is going well. It is still the number one company as far as ophthalmic sector is concerned. Our market share in the ophthalmic space is about 25%. It grows about 10% every year and that is what the growth for nine months so we will make that growth and it is a contributing for there is no, it is doing well I would say. As far as the diagnostics is concerned that is not our business frankly which you are talking about the lab diagnostics, right?
- Ranjit Kapadia** Yes
- Ajay Piramal** Sorry. That is growing at about 20% for the first nine months of the year so it is on track as to what we had said. It is a good business. We have not made any acquisition this year. We are going on organic basis. Our growth is 20% there. And as far as codeine is concerned we are really evaluating the cost benefit analysis and doing a very thorough payback analysis because you know in codeine there are lots of controls and all as far as the inflow of raw material since it is poppy and opium as well as through the supply of finished goods so we are making a detailed evaluation and I think that by the end of this year we will come to a firmed conclusion as to where we should be on this project.

- Ranjit Kapadia**      Okay thank you very much and all the best Sir.
- Ajay Piramal**      Thank you.
- Moderator**      Thank you. The next question comes from the line of Kartik Metha from Daiwa Securities, please go ahead.
- Kartik Mehta**      Hi. Can you update us on your plans to raise 1000 crores and what would be the outstanding Forex position as of now?
- Ajay Piramal**      So the board has given us an enabling resolution to raise 1000 crores. We have not taken any further action other than the board resolution and we do not think that we will take any action at least in the current year. So I do not expect any fund raising in this year. The purpose of raising these funds was to have really to do some acquisitions for the other but we are finding that the environment for acquisition is getting more and more difficult and therefore we do not want to just raise the funds. And as you can see also our debt equity ratio is reducing so if we do not have any acquisition on the annvil today funds may not be necessary.
- Kartik Mehta**      Yeah and the second one, was on the outstanding forex front.
- Rajesh Laddha**      No, we do not have any forex derivative contract outstanding.
- Kartik Mehta**      And just on the acquisition front if you could throw, would you favor doing it in Indian asset or would that be outside India? If it is an Indian asset would it be formulations or on the brands as they would be available or would it be outside India over a contract manufacturing asset? Thanks.
- Ajay Piramal**      So the first preference would be to do an acquisition in the domestic business in terms of brands or in terms of any other such assets which are available in India. The second preference as of now would be if there are some other niche areas as far as the critical care segment is concerned so just as we bought Haemaccel earlier and we brought

inhalation anaesthetic so there is some niche area to look at that is been a second preference.

**Kartik Mehta**

Thank you.

**Moderator:**

Thank you. The next question is from the line of Rohita Sharma from Enam Securities, please go ahead.

**Rohita Sharma**

Hi Rohita here, I had a question on your EBITDA margins. Just wanted to understand why have you lowered the EBITDA margin guidance despite higher contribution from the domestic formulation business and maintenance of EBITDA margin guidance for Minrad?

**Rajesh Laddha**

See in the beginning of the year if recollect we have said that we will have sales coming up from our early phase developmental activities at Ahmedabad and Chennai which incidentally has got delayed and again the ramp up has been slow there and there we expected you know margins to be much better than the late phase manufacturing so I think that is the reason why the swing is there, though domestic continues to do better so there is only about a percentage point we are lowering but that we expect to be compensated by saving say below EBITDA level which is interest depreciation and tax.

**Rohita Sharma**

Okay and you had also indicated earlier that you expect savings of around 6 to 8% on account of closure of Huddersfield so what has been the progress there?

**Rajesh Laddha**

Huddersfield savings have come in because that plant is completely shut in terms of people, assets everything has gone from our books. What has not come in actually is the swing due to this early phase developmental activity.

**Rohita Sharma**

So you expect that to come may be in FY11?

**Rajesh Laddha**

Yes that is what we expect that the market should improve and then we should be able to ramp up these two facilities at Ahmedabad and Chennai.

- Rohita Sharma**      Okay fine. Thank you.
- Moderator**      Thank you. The next question comes from the line of Ravi Agarwal from Edelweiss, please go ahead.
- Ravi Agarwal**      Thanks for the question. You are just mentioning that the Morpeth you have actually signed more contracts with Pfizer and that has actually increased the order size. Are we to assume that levels after you have signed these contracts your contribution from this facility can be higher than your earlier quantum of sale from Pfizer?
- Ajay Piramal**      To some extent yes, not significant growth but there will be some growth.
- Ravi Agarwal**      And what would be, can we get some sense of the pricing? Would we now be possibly getting better margins on these new contracts or would the margins be lower?
- Ajay Piramal**      So the pricing actually we have given some benefit on the top line but because this made significant savings as far as costs are concerned the margins will be actually better than what we had originally contracted for.
- Rajesh Laddha**      And volumes also will go up.
- Ravi Agarwal**      Okay so but in net margins will be better I guess.
- Ajay Piramal**      Yeah.
- Ravi Agarwal**      Okay. Just actually one housekeeping question, we mentioned the fact that our depreciation for the year should be roughly around 135 to 140 crores. Now if you go by the nine-month run-rate that actually employs a very sharp decline for fourth quarter. Is this something wrong?
- Rajesh Laddha**      No, I think our depreciation guidance is 160-165 crores.
- Ravi Agarwal**      Okay thank you sir.

- Rajesh Laddha** And actually would be lower than that.
- Ravi Agarwal** I am sorry.
- Rajesh Laddha** The guidance was 160-165 crores and actual would be lower than that.
- Ravi Agarwal** You were mentioning it would be around 130-135 crores.
- Rajesh Laddha** That was capex.
- Ravi Agarwal** No the depreciation I thought.....
- Rajesh Laddha** Depreciation would be accordingly in the range of 155-158. I mentioned capex to be 130-135 crores.
- Ravi Agarwal** Okay I am sorry for that. Thank you so much.
- Moderator:** Thank you. Participants who wish to ask a question may press \* and 1. The next question is a follow-up question from the line of Neelkanth Mishra from Credit Suisse, please go ahead.
- Neelkanth Mishra** Hi, this is on the further growth in India. Where do you see this continued growth coming from further productivity improvement because if I see I think sales per medical rep are already that would be on the priority. So do you need to hire more people? Is this more about new product launches? Where do we see the next level of growth coming from?
- Ajay Piramal** So actually it will be a combination of all so we will see some productivity increase. We will add a few people in selected therapeutic areas and we will launch new products.
- Neelkanth Mishra** So where should we have and what percentage increase do we see in the medical reps?
- Ajay Piramal** You know we will come up with these plans by the end of last quarter. Some of this frankly is competitive information which you know it may

not be correct for us to give but let me say that in selected therapeutic areas we will see some growth in field force, not huge.

**Neelkanth Mishra** Thanks and on the tax rate, I know this has been asked a couple of times already, just trying to reconcile; are we expecting any further tax savers in the fourth quarter or are we done with it ?

**Rajesh Laddha** We are done with it as far as this year is concerned.

**Neelkanth Mishra** Okay and last question, what is the I mean you did mention in passing that the clinical trials packaging business from morpeth was looking good I mean have we I mean is it going to be meaningful in the coming quarters or is this is at a very early stage still?

**Ajay Piramal** It is in early stage still.

**Neelkanth Mishra** Okay. Thanks very much.

**Moderator** Thank you. The next question comes from the line of Kartik Mehta from Daiwa Securities, please go ahead.

**Kartik Mehta** Hi, just one thing. What would be the waited average cost of debt in FY11 if you could share that of the total debt including forex debt?

**Rajesh Laddha** Should be in the range of 6-7%.

**Ajay Piramal** Also depends on the environment; you know what is the credit policy what they will announce. It should be in that range, subject to no major change in credit policy of the Reserve Bank.

**Kartik Mehta** Okay fine and last thing was actually the increase in the absolute amount of inventories as on 31<sup>st</sup> December. Any particular part of business where there has been more than reasonable inventory or is it just something as on that date?

**Rajesh Laddha** See if you see it in terms of number of days which is a right metric to look at inventory. It has gone up by one day and as we have told you

and in Minrad we are carrying a little bit high inventories currently because we expect quarter four to be much better.

**Kartik Mehta** Okay thank you sir.

**Moderator** Thank you. The next question comes from the line of Priya Ranjan from Macquarie Capital, please go ahead.

**Abhishek Singhal** Hi, my question is regarding GCC. Any color on Sevoflurane launch in Europe?

**N. Santhanam** Minrad plant has to be approved by the FDA authorities, so after Piramal took over the plant we had put in all that is necessary the audit people came in and they have given us a clearance so now we are in the process of filing the dossiers and getting the registration. Hopefully those all should be completed in the next three to four months and thereafter we will have one country namely France and based on that reference countries we will be filing the dossiers in respect of other countries in European Union and then over a period of 12 to 15 months we will get the entry into those other countries.

**Abhishek Singhal** Thanks a lot.

**Moderator** Thank you. As there are no further questions I would like to hand the floor back over to Mr. Sagar Gokani for closing comments.

**Sagar Gokani** Thank you all of you for joining the call. If there are any questions which remain unanswered please feel free to reach us at anytime. Thank you once again.

**Moderator** Thank you very much. On behalf of Piramal Healthcare Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.